

VISIT...

LANZAROTE
Caliente.COM

management

Luis Gomez-Mejia



David B. Balkin



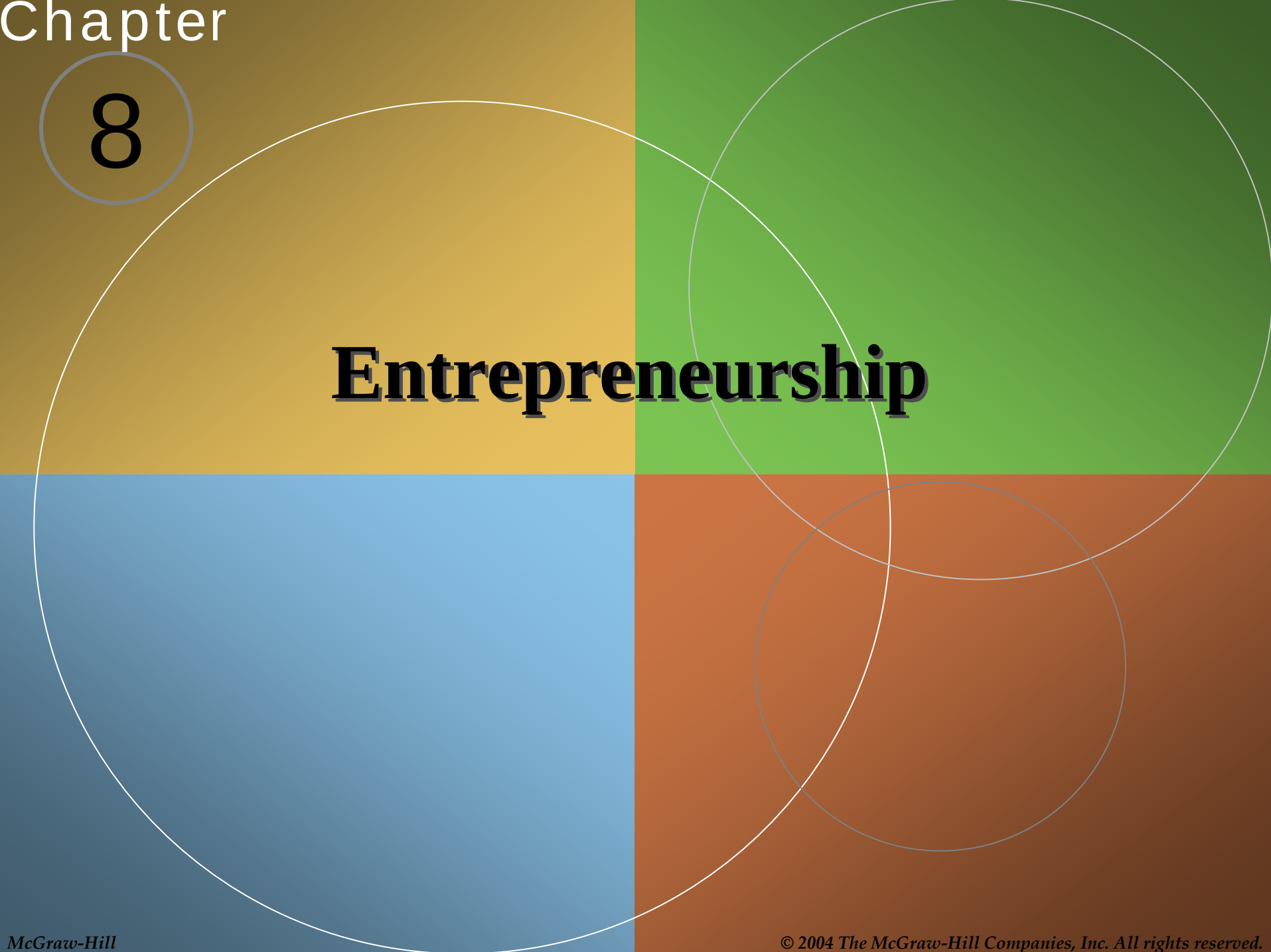
Robert L. Cardy



people
performance
change

second
edition

Entrepreneurship



Learning Objectives

After reading this chapter, you should be able to:

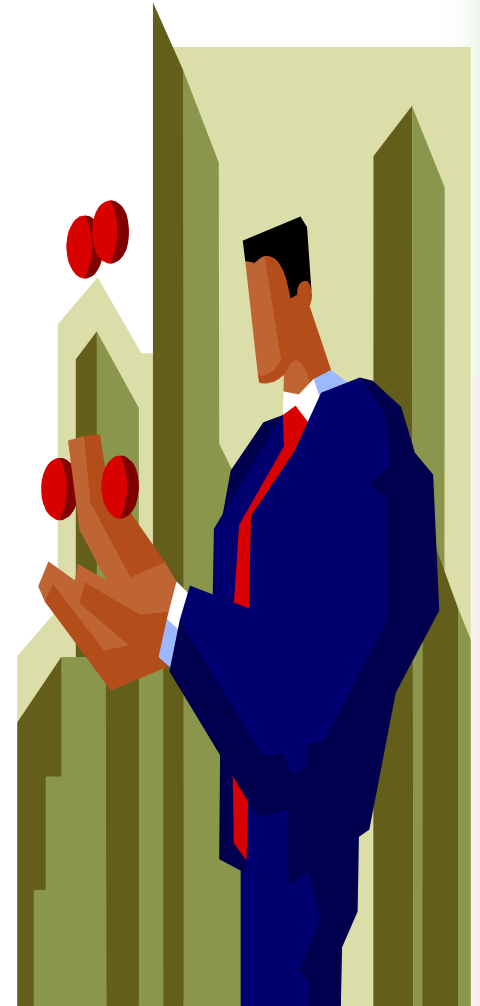
- **Distinguish between an entrepreneurship and a small business.**
- **Develop negotiation, networking, and leadership skills that can help you as an entrepreneur.**
- **Recognize why some entrepreneurs fail.**
- **Analyze the advantages and disadvantages of the legal forms of enterprises.**

Learning Objectives(continued)

- **Learn how capital is raised through debt and equity financing and recognize the merits of each approach.**
- **Evaluate alternative forms of entrepreneurship, such as franchising, spin-offs, and intrapreneurships.**
- **Recognize and evaluate entrepreneurship as a career path and a source of innovation and new job opportunities.**

Introduction

- **Creating a new enterprise is one of the greatest management challenges.**
- **Entrepreneurs have built successful companies by being able to exploit unmet needs in the market.**



What is Entrepreneurship?

- **The process of creating a business enterprise capable of entering new or established markets.**
- **It involves deploying resources and people in a unique way to develop a new organization.**
- **An *entrepreneur* is an individual who creates an enterprise that becomes a new entry to a market.**





Entrepreneurship Myths

- **Myth 1: Entrepreneurs are born, not made.**
- **Myth 2: It is necessary to have access to money to become an entrepreneur.**
- **Myth 3: An entrepreneur takes a large or irrational risk in starting a business.**
- **Myth 4: Most successful entrepreneurs start with a break-through invention.**
- **Myth 5: Entrepreneurs become successful on their first venture.**

Entrepreneurial Venture versus Small Business Management

Small Business

- Independently owned and operated
- Small in size
- Does not dominate its markets
- Has less than 100 employees

Entrepreneurship

- Growth is one of the most important goals
- The goal is to become a medium-sized firm of 100-499 employees; or
- A large firm with 500 or more employees.

The Importance of Entrepreneurship

- **Job Creation**

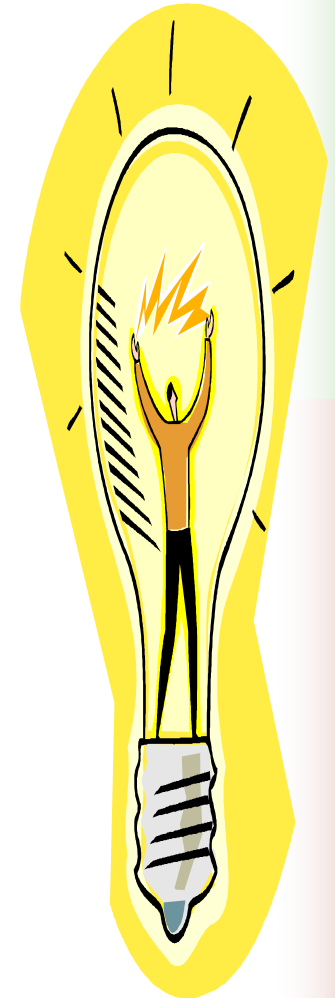
- Entrepreneurship accounts for most new jobs in the U.S. economy.

- **Innovation**

- Entrepreneurships are responsible for introducing a major proportion of new and innovative products and services into market.

- **Opportunities for Diverse People**

- People of diverse background can improve their economic status by becoming entrepreneurs.



Key Characteristics of Entrepreneurs

- **High need for achievement**
- **Internal locus of control**
- **Willingness to take risks**
- **Self-confidence**



Entrepreneurial Skills

- **Negotiation skills**

- Ability to obtain resources that are controlled by other individuals.

- **Networking skills**

- Gather information and build alliances
 - ✓ Personal network
 - ✓ Business network

- **Leadership skills**

- Provide a shared vision



Starting and Managing an Entrepreneurship

New Ideas come from:

- newspapers, magazines, and trade journals
- inventions or discoveries
- trade shows and exhibitions
- hobbies
- family members
- business school classes



Why Entrepreneurships Fail

- **Lack of capital**
- **Poor knowledge of the market**
- **Faulty product design**
- **Human resource problems**
- **Poor understanding of the competition**



Business Plan

- **Once an entrepreneur conceives a good idea for a new venture, next critical step is to prepare a business plan.**
- **It is a blueprint that maps out the business strategy for entering markets.**
- **It explains the business to potential investors.**
- **It develops strategies and tactics to minimize risk of failure.**



Key Components of the Business Plan

- **Description of the product or service**
- **Analysis of market trends and potential competitors**
- **Estimate for pricing the product or service**
- **Estimate for the time it will take to generate profits**
- **Plan for manufacturing the product**
- **Plan for growth and expansion of the business**
- **Sources of funding**
- **Plan for obtaining financing**
- **Organizational and management plan**

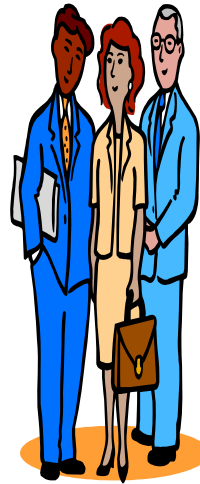


Legal Forms of Entrepreneurship

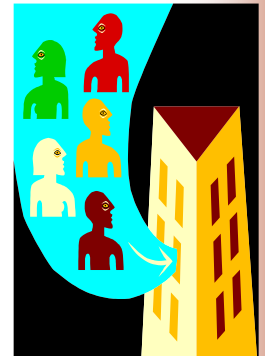
- **Proprietorship** – business owned by an individual



- **Partnership** – association of two or more persons acting as co-owners of a business



- **Corporation** – legal entity separate from the individuals who own it



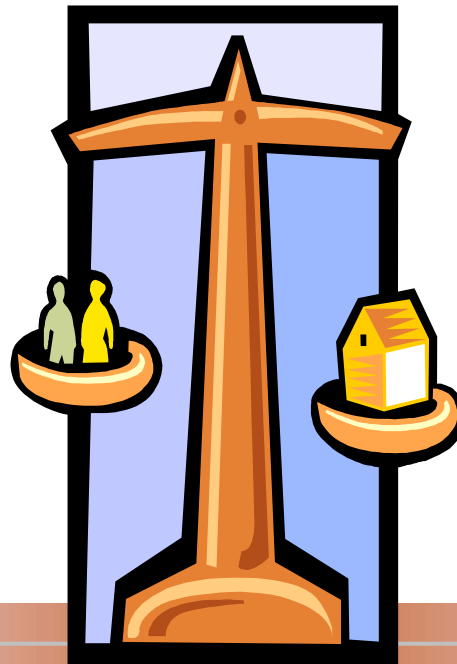
Proprietorship

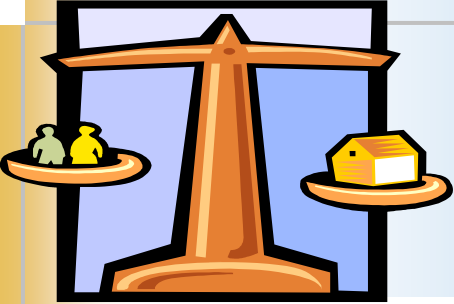
Advantages

- Easy to create
- Owner keeps all profits
- Owner makes all decisions

Disadvantages

- Unlimited liability
- Harder to obtain credit and capital





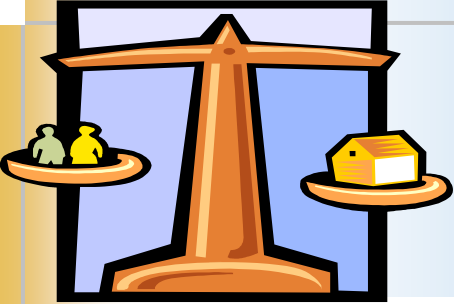
Partnership

Advantages

- Ease of formation
- Direct share of profits
- Division of labor and management responsibility
- More capital available than in a sole proprietorship
- Less governmental control and regulation

Disadvantages

- Unlimited liability for firm's debt
- Limited continuity of life of enterprise
- Difficulty in obtaining capital
- Partners share responsibility for other partners' actions.



Corporation

Advantages

- Owners' liability for the firm's debt limited to their investment
- Ease of raising large amounts of capital
- Ease of transfer of ownership through sale of stock
- Life of enterprise distinct from owners

Disadvantages

- Extensive government regulation of activities
- High corporation fees
- Corporate capital, profits, dividends, and salaries double-taxed
- Activities limited to those stated in charter.

Sources of Financial Resources

- **Debt Financing** – obtaining a commercial loan setting up a plan to repay the principal and interest
- **Equity Financing** – raising money by selling part ownership of the business to investors
 - Private investors
 - Venture capitalists
 - Public offerings of stock



Managing Growth

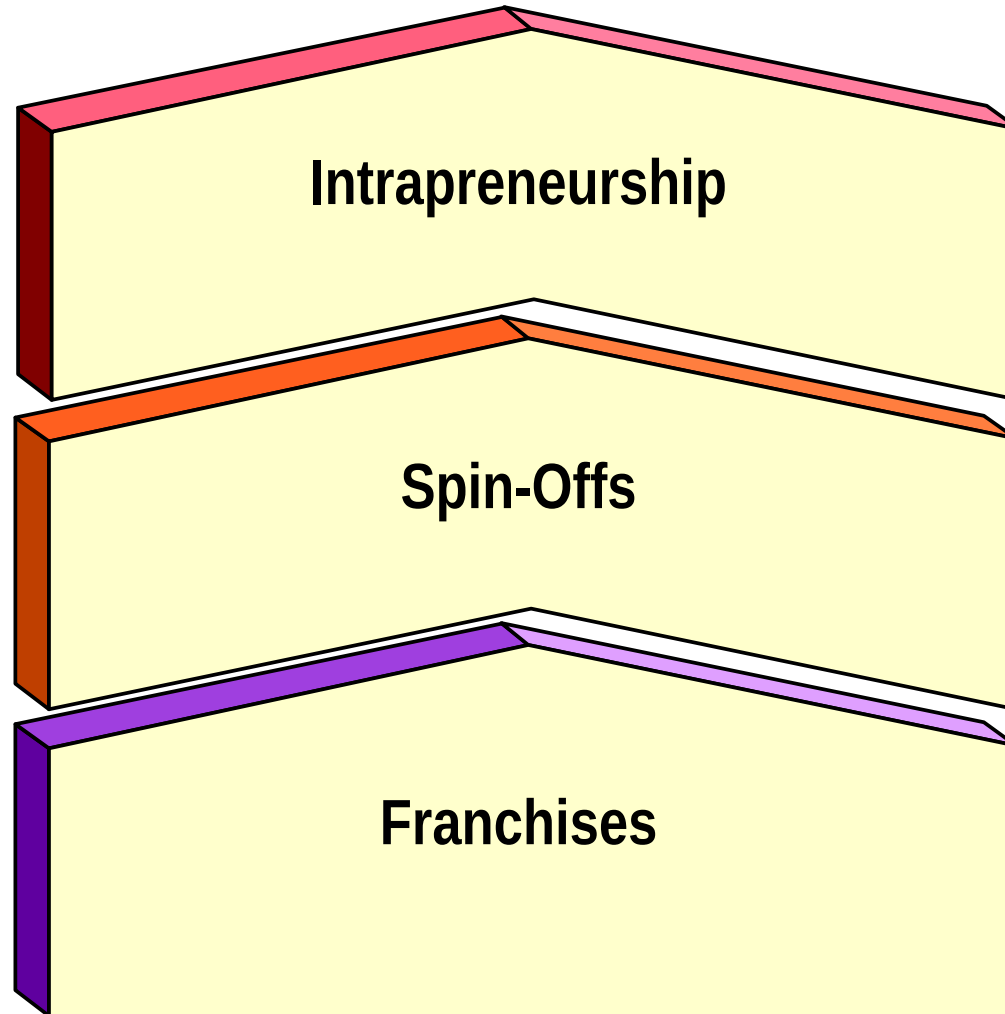
- **Entrepreneurs need to manage business growth by establishing benchmarks based on:**
 - Market data
 - A thorough analysis of the firm's ability to handle increased demand without sacrificing quality
- **The business plan is a way for planning growth targets and managing to them.**
- **Too much growth can strain operations.**



Problems of Growing Too Quickly

- **Cash flow crisis as a result of spending most available cash on expansion and not meeting obligations to creditors.**
- **Employees are likely to experience stress from rapid changes and growth.**
- **Accounting and information systems are not adequate for the larger business.**
- **Growing so quickly that control is lost**

Alternative Forms of Entrepreneurship



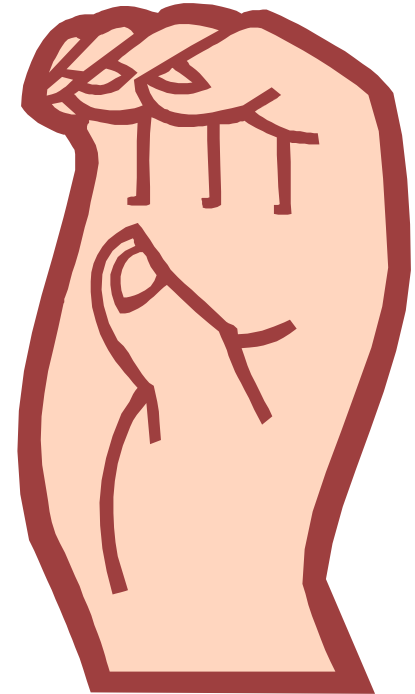
Innovation

- **Exploring and developing new technologies and new ways of doing things**
- **Vital for the future viability of an organization**
- **Innovation is a key to long-term success**



Innovation: Five C's

- **Capability**
- **Culture**
- **Cash and Recognition**
- **Customer Orientation**
- **Cut Losses**



Applications: Management is Everyone's Business—*For the Manager*

- **As an entrepreneurship grows, the owner must learn how to manage a growing and increasingly complex enterprise.**
- **A key success factor is the entrepreneur's ability to delegate responsibilities and duties to others.**
- **As the firm grows, the entrepreneur must incorporate the role of manager.**
 - Being more systematic in dealing with business issues.

Applications: Management is Everyone's Business—*For Managing Teams*

- **Many entrepreneurship are started by founding teams of two or more people.**
- **Teams can bring more ideas, creativity, and competencies to a new venture.**
- **Entrepreneurs in teams must learn how to share power and authority with partners and develop ways to settle conflicts.**
 - **Advisory board can provide counsel.**

Applications: Management is Everyone's Business—*For Individuals*

- **Entrepreneurs must temper overconfidence.**
- **Overconfidence occurs when decision makers have overly optimistic assessments and fail to examine all available information.**
 - Advisory board can provide perspective.